

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: December 4, 2008

RE: Resolution authorizing the issuance and sale of not to exceed \$225,675,000 City of Detroit Series 2009 Tax Notes (**Recommend Approval**)

The aforementioned resolution (2009 Tax Notes resolution) will appear on tomorrow's Budget, Finance and Audit Standing Committee agenda. Based on responses to my inquiries, I provide the following report.

2009 Tax Notes

The 2009 Tax Notes resolution consists of a combination of not to exceed \$128,480,000 in Revenue Anticipation Notes and not to exceed \$97,195,000 in Tax Anticipation Notes. The not to exceed amounts represent the maximum authorization amounts by formula under State Acts 34 and 97.

Although the requested amount of Tax Notes have increased over the years, the actual amounts issued have remained fairly consistent, as depicted as follows:

The amount of RANs/TANs requested and authorized by Council:

- 2004-05 \$ 95 million
- 2005-06 \$127 million
- 2006-07 \$132 million
- 2007-08 \$170 million
- 2008-09 \$226 million (currently requested; not authorized by Council yet)

While the City Council has been asked to authorize more notes each year, according to the Finance Department, the City has not issued more notes over the last three years.

The actual issuances are set forth on the following chart:

Year of Issuance	RANs	TANs	Total
2005	\$54,445,000	\$0	\$54,445,000
2006	\$45,640,000	\$79,595,000	\$125,235,000
2007	\$45,910,000	\$83,460,000	\$129,370,000
2008	\$39,915,000	\$89,685,000	\$129,600,000

It is refreshing to see that the actual amounts issued have not reached the authorized amounts requested.

According to the Finance Department, the City does not expect to issue more RANs/TANs in 2008-09 than in 2007-08. The reason for the increase in requested authorized amounts is that the perceived credit-worthiness of each security has shifted in recent years. For instance, before the State Treasurer began withholding state-shared revenues, RANS were considered the better security and carried the lower interest rate. The City then issued as many RANs as possible and issued the remaining balance as TANs.

Since the withholding of state shared revenue, TANs are considered the better security and the City issued as many of those as possible and filled in the balance with RANs.

Since it is in the City's best interest to offer as many of the most secure bonds as possible in order to achieve the lowest interest cost and, since it is impossible to know which will be the most attractive until the City gets closer to issuance, the Administration requests the maximum allowable under each type of note. With the maturity of the GDDRA bonds this year it is possible to issue more RANs, hence the higher requested authorization. The Fiscal Analysis Division reviewed worksheets prepared by financial advisors that supported the requested amounts.

City's Cash Position

The City would use the proceeds from the 2009 Tax Notes to pay current operating expenditures of the City in the current fiscal year in anticipation of the collection of state revenue sharing and property taxes for the next succeeding year.

Although the use of tax anticipation notes is common amongst municipalities and school districts in Michigan, ideally, anticipation of current revenues is used to pay current expenditures. In many cases, the timing of revenue receipts do not match evenly with expenditures; hence monies are borrowed from anticipated receipts to smooth out the matching of receipts with expenditures.

Unfortunately, the City of Detroit has had to use RANs/TANs to cover current and prior year expenditures in recent years. This will continue until current year receipts can completely cover current expenditures.

Based on my review of the current year's cash flow statement, RANs/TANs may need to be issued by March 2009 in order to avoid negative cash flows this fiscal year.

If Council approved the 2009 Tax Notes resolution, the City would not be able to go to market to issue the RANs/TANs until the 2007 CAFR is completed. Hopefully, the 2007 CAFR will be completed by February 2009.

The only caveat is that starting in January 2009, the City will be late in getting out the 2008 CAFR. It is hopeful that the State will allow the City to issue bonds based on a 2007 CAFR, and perhaps, coupled with a deficit elimination plan the Administration looks to produce within a month.

So, I consider it prudent for Council to consider approving the 2009 Tax Notes resolution during your formal session on Tuesday, December 9th in order to get this resolution up to the State Treasurer's office for review and eventual approval based on the status of the 2007 CAFR and/or the availability of a deficit elimination plan from the Administration as approved by Council.

Recommendation

Based on the above analysis, I recommend approval of the 2009 Tax Notes resolution.

cc: Council Divisions
Auditor General's Office
Joseph Harris, Chief Financial Officer
Donita Crumpler, Manager I-Finance
Pamela Scales, Budget Director
Arese Robinson, Mayor's Office

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